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# TNB may have to restructure UK solar asset debts

**PETALING JAYA:** Analysts are generally positive on Tenaga Nasional Bhd's (TNB) venture into the UK's solar business, but the utility giant might need to restructure debts of the operating asset, which incurred a net loss of about US\$5 million (RM22.35 million).

Last Friday, TNB said it was buying a 50% stake in Luxembourg's Vortex Solar Investments SARL, which operates a 365MW solar portfolio in the UK, for €86 million (RM476 million).

MIDF Research said a measure to turn around the operating asset's bottom line, among others, is to restructure its debt given the very low cost of debt now against the 4.3% that it is now incurring.

"Our ballpark estimates suggest at a 2% borrowing cost (based on the UK 30-year bond yield), the operating asset can halve its annual finance cost from US\$16 million to around US\$7 million and bottom line in turn can swing into a profit of about US\$3 million," it opined, noting that TNB is likely to account for equity of the operating asset's earnings and unlikely to consolidate its net debt.

Despite the acquisition's valuation of 16 times enterprise value (EV)/earnings before interest, taxes, depreciation and amortisation (ebitda) at a premium to TNB's own valuation of 7 times EV/ebitda, MIDF Research said on a per MW basis, the consideration of US\$1.6 million/MW is much lower compared with the industry cost of around US\$2.5 million/MW for a new solar project, which implies an attractive entry for TNB.

MIDF Research is reaffirming its "buy" call on TNB with an unchanged target price of RM16.80 with a potential upside bias from the acquisition.

Meanwhile, Hong Leong Investment Bank (HLIB) Research, said the acquisition will further enlarge and diversify TNB's international energy portfolio and improve its international energy exposure. It will be immediately earnings accretive upon the completion of the deal by the third quarter of the year.

"The acquisition marks TNB's first foray into the UK renewable energy market and potentially future expansion. It also serves as a platform for TNB to acquire knowledge and experience in renewable energy technology and best practices," it noted.

PublicInvest Research is maintaining its earnings forecasts for TNB at this juncture though the eventual contributions are not likely to be very significant.

Vortex Solar owns the third largest solar power business in Great Britain. Combined with its existing 70MW portfolio in Turkey and India, PublicInvest Research said the deal will increase TNB's net capacity in renewable energy by 182MW (based on 50% shareholding) to 252MW.

TNB is targeting overseas investments to account for 20% of its earnings by 2025 and for earnings before interest and taxes (ebit) to grow at 10% annually from RM8 billion in FY2015 to RM20 billion by FY2025. Currently, contributions from overseas operations are negligible. TNB shares were down 2 sen to close at RM13.92 yesterday on some 5.05 million shares done.